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Reinforcement of Cooperative Regulation in Dealing with Global Business Penetration

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Abstract: This research aims to find out the cooperatives' competitiveness in society's social reality, and to find out the cooperatives regulation reinforcement model in Indonesia so that cooperatives can have competitiveness and show off its existence as the pillar of national economy and can be competitive in dealing with global business penetration.

This study is a normative juridical law research using Statute and Conceptual Approaches. Statute approach is intended to study all legislations and regulations related to the legal issues encountered, while Conceptual Approach makes the result of study the basis to build legal argumentation used in coping with the legal issue encountered.

The result of research shows that there should be a cooperatives regulation reinforcement leading to the cooperatives' progress in globalization demand, so that cooperatives can survive and develop by holding tightly on the nation's ideological concept referring to the objective of national economic development. To achieve such the objective, one attempt the government has taken is to develop obvious and clean regulations about cooperatives thereby encouraging the development of cooperatives as the populace economic movement undertaken based on kinship and mutual cooperation principles that can realize the cooperatives members' wellbeing particularly and contribute to the improved society wellbeing generally, and national economic development.

Keywords: Cooperatives, Reinforcement of Regulation, Globalization

INTRODUCTION

Almost two decades post-economic crisis (Murbyarto, 2003; AS.Ma'arif, 2003; Franz Magnis Suseno, 2003; Samosa, 2004), Indonesian real sector has not developed significantly in line with the macro

stability. Microeconomics has not been recovered significantly because of the important engine of growth (investment and business realm). The national economic development encountered by the business realm including cooperatives and Small and Medium Scale Enterprises (SMEs) is very rapid and dynamic in global scope. Cooperative is one of enterprises consistent with Indonesian personality as the important but not the last alternative enterprise form (Hutasuhut, 2001). Pro-people economy (Ace Partadiredja, 1981) in the Article 33 of 1945 Constitution (*Undang-Undang Dasar 1945*) is defined as an economic system intended to bring the people sovereignty into reality in economic area poured into 3 basic principles of pro-people economy.

The aspect of successful cooperatives is viewed not only from quantity aspects with as large as possible volume of cooperatives but also from its quality aspect by considering the growth of cooperatives' Gross Domestic Product (GDP), the improved competitiveness is indicated with the growth of cooperatives productivity, the improvement of new business potentially growing and innovative is indicated with the increased number of entrepreneurs contributing to national program and the improvement of institutional and cooperative business performance is indicated with the improvement of participation (Davis, 1990) by the members of cooperatives in capitalization (Verhagen, 1984). The fact is that cooperatives as the pillar of Indonesian economy is empowered because it is considered as capable of absorbing workers and providing the SMEs the opportunity and of competing with the large-capital company (Capital Expensive). In fact, cooperatives have not driven the domestic resource so that unemployment and poverty rates still become the basic problems in economic development. Internal weakness of cooperatives is worsened with environment condition created in globalization era and macro policy not giving opportunity to those that cannot develop efficiency or innovation in running business, constituting the economic function related directly to technology innovation and information management sophistication as the characteristics of globalization.

A question arises, "What is the role of regulation in the existence of cooperatives in a more concentrated national economy in globalization era. Cooperatives need attention paid to many aspects, particularly the constraints with the cooperatives' potency and competitiveness affecting the existence of cooperatives within society, and obvious clean regulations and the law certainty are required. Cooperatives empowerment is the duty and function of government, business realm and society as the Stakeholders that should develop cooperatives synergistically, thereby growing and developing into a solid and independent business. The role of stakeholders in the empowerment of cooperatives has not been maximal, so that the performance of cooperatives has not shown the optimum result as the dependable (significant) economic institution. Until today, cooperatives are the actor not reflecting the principles of commonness, justice efficiency, sustainability, independency, and progress balance. Law (Act) Number 25 of 1992 has not been consistent with the law and cooperatives development. The existence of cooperatives as the enterprise is often questioned particularly from its administrators' management and professionalism aspect. Many cooperatives are involved in loan or investment fraud cases leading to less existence of cooperatives as the enterprises compared with other business institution.

Analyzing the constraints in dealing with the global business penetration is expected to find the obvious and clean cooperative regulation reinforcement model thereby encouraging the development of cooperatives as a populace economic movement undertaken based on the principles of kinship, aiming to realize the wellbeing of cooperative members in particular, to contribute to the improvement of

society wellbeing and national economic development. In addition, it can be found what regulation reinforcement model should be applied to make the cooperatives competitive, independent and solid, but consistent with kinship and mutual cooperation principles based on the State's ideology and the 1945 Constitution in globalization era.

METHODOLOGY

This study was a juridical normative research using Statute and Conceptual Approach. The problem formulated was answered using Statute Approach to study all legislations and regulations related to the legal issues encountered. After the legal issues has been analyzed using related legislations and regulations, Conceptual Approach was used as the basis of building legal argumentation in coping with the legal issues encountered as the solution.

Data was processed and analyzed qualitatively. The data of research was obtained from secondary data, the one taken from literatures including legal books, literatures, legislation, official document, previous studies, articles, magazines, newsletters, and other sources relevant to this study. The secondary data derived from primary law material constituting legislation related to cooperatives.

LITERATURE REVIEW

Globalization is a fact and a process (Lodge, 2005), that has reduced significantly the role of states at international level (WR. Jati, 2013: 241), with borderless world (Ohmae, 1999). States and military rules no longer play an important role, and its role is replaced with non-territorial actor such multinational corporations, transnational movements and international organizations (Keohane, Nye, 1987). Similarly, Yeates (2002: 70) suggested that globalization presents the global economic dominated by an uncontrollable big power with transnational corporations being the key actor. Transnational corporations and their alliances are the political actors getting big success in delivering message throughout world that there is no alternative other than global capitalism. The road toward the collective prosperity, as the corporations often argue, is through international competition decided through free market and free trade. They control both through themselves and through their alliances at local, national, regional and global levels (Sklair, 2002:155). Above all, the claim is made that the sovereignty and autonomy of nation-states has been radically reduced (Goldblatt, 1997:269). Globalization is understood as the change in economic and social sectors combined into a unique regional-global interrelationship more extensive and intensive than previous period, challenging and recreating the modern state-specific political community (Held, 2000). The state becomes powerless when encountering international trade like World Trade Center (WTO), World Bank, International Monetary Fund (IMF), and transnational corporations (Sklair, 2001). Public policy is, in fact, no longer citizens' interest-oriented (Hertz, 2005), but protecting the interest (Korten, 1997), and global corporation's objective (Budi Winarno, 2014). At domestic level, this process has also changed the quality of a state's democratic policy no longer based on the people's interest, but maintaining the global cooperation penetration. A nation's foreign politics is carried out in the attempt of achieving its national objective (Morgenthau, 1993), achieved through various foreign policy instrument with international agreement. The effectiveness of nation's foreign politics and policy instrument supporting it is no longer determined by conventional powers but by cross-border new actors. Globalization affects the national economy in three ways: more competitive trading pressure, production

multi-nationalization, and financial market integration (Garrett, 2000:302). Firstly, the trading competition is more stringent as the main component of conventional globalization theses. This competition has been recognized generally although actually the competition not only occurs in trading but also seizes investment. Secondly, it is closely related to production multi-nationalization and the followings are the threats of multinational corporations that can move their production location from one state to another: Coca Cola Company, Samsung, and Blackberry. This production multi-nationalization leads to production cost and interventionist government. National government should apply the free trade policy when they want to compete for investment and worker providing by multinational corporations. Thirdly, the effect of globalization on national economy lies on the global financial market integration. This integration has reduced the national economic autonomy recalling that this money flow is uncontrollable to any state's power.

Pro-poor economy as mentioned in Article 33 of the 1945 Constitution is an economic system to bring the people sovereignty into reality in economic sector as included into the 3 (three) basic principles of pro-poor economy (Istiqomah, Raharjuni, 2012). From those principles, the contribution of state or government to pro-poor economic system can be inferred (Baswir, 2008; Djakfar, 2009). There are three economic actors in Indonesia: State-Owned Enterprises, Private Companies, and Cooperatives. Cooperative derives from Latin words *Co* meaning together and *operates* meaning cooperating (Burhanuddin, 2005). So, in cooperatives, togetherness and kinship forms are shown in running business (Suratal. HW, 1993). Meanwhile, Ropke (1985) defines cooperatives as business organization the owners or members of which are the main customers of company (identity criteria). A cooperative's identity criteria will be the proposition or principle of identity distinguishing cooperative business unit from other business units. Hendar Kusnadi (2005) stated that the cooperative's economic activity should refer to identity principle (double essence) in which the member serves as owner and customer all at once. Cooperative organization is established by a group of individual managing a corporation collectively assigned to support the economic activity of its individual members, constituting an autonomous organization existing in social-economic environment, benefiting all of its members, administrators, and leaders, and individual members, administrators, and leaders formulate its objectives autonomously and bring those objectives into reality through economic activities undertaken collectively (Hanel, 1989), so that it is expected to expand the economic base and to contribute significantly to speeding the structural change and national economic tenacity (Sijabat, 2013).

Article 1 of Republic of Indonesia's Law Number 25 of 1992 about cooperatives states that cooperative is an enterprise the members of which are individuals or legal entities based on the cooperative principle and people's economic movement based on kinship principle. Cooperative is defined as an enterprise the members of which are individuals or legal enterprise based kinship and togetherness principles, playing double role as economic institution, education media, and a media of democratizing the society (Sudarsono, 2000). Togetherness principle is defined as a collective ownership over production source constituting the important thing, by considering the justice element in cooperatives (Sugiharsono, 2009). The principles of cooperatives are the basis of cooperative's work as an enterprise with typical characteristics and self-identity distinguishing it from other business entities (Machima, 1994). Those principles consist of: independency, open membership, democratic management, profit sharing conducted justly proportional to the service of individual members, rewarding limited to capital, cooperative education and inter-cooperatives cooperation (Indonesian Accountant Association, 1998).

The existence of cooperatives in Indonesia is expected to be the pillar of Indonesian economy. Although the ideal objective of cooperatives is to be the pillar of Indonesian economy, in fact the role of cooperatives is smaller than the State-Owned Enterprises and Private Companies' (Santosa, 2004).

DISCUSSIONS

1. The cooperatives' competitiveness in dealing with Global Business Penetration

The cooperatives develop difficultly thereby having poor competitiveness in business penetration viewed from the following aspects:

- (a) Regulation and Government as the Legislature of Cooperatives: The problem of cooperative development is entrapped in the irresolvable classical problems such as low participation by members and its inadequate access to capital source, market and technology. It raises the following question: what do the government and the cooperatives builder actually do for more than 60 years? The anatomy of cooperatives as an economic business entity built by its members, owned by its members and working as its members, as included clearly in the Law Number 12 of 1967 as the basic principle of cooperatives as mentioned in Law Number 25 in 1992. Such the condition is likely related to the government's will to make the cooperatives serving as the institution raising the people's economic power, required to provide wider service to all members of society, therefore forgetting the kinship and cooperatives establishment principles. From external aspect of cooperatives building, the poor coordination in the attempt of multi-sector building is related to the basic policy of cooperatives empowerment, with no firm job description about sector building. Therefore, all sector institutions seem to have dominant role, but the responsibility for its success gets less attention and finally the responsibility is only delegated to the State Ministry of Cooperatives and SMEs. It can be seen clearly that the legislation enacted now has not been able to accommodate the determination of role, duty and responsible between institutions. As the basic policy is still floating and vague, the coordination between cooperatives building institutions will remain to be like this so that it can be found the form of building institution expected to help synergize the sector institutions in cooperatives empowerment, in Coordination Agency or Coordination Minister.

Many cooperatives builders in local area do not recognize and understand at all the basic principles of cooperatives because they come from out of cooperative environment, making the policy taken irrelevant to the cooperatives empowerment interest that in turn kill the creativity of those wanting the cooperatives grow and develop corresponding to its basic principles. It results in many supporting element of cooperatives empowerment independent of its roots like *Perum PKK*, *Bukopin* and *PNM*.

The cooperatives' tendency to be the hidden car for politicians will occur as long as the political element still dominates the cooperatives policy and regulation, or the government's building still dominates the cooperatives empowerment cooperatives. Although the government always puts cooperatives to be the economic institution for poor society, the output is that the poor society has never been strengthened for their condition and position in national economy. It can be seen from the cancellation of all materials contained in the Law Number 17 of 2012

about Cooperatives because they are considered as having corporation spirit and have removed the kinship and mutual cooperation principles as the typical characteristics of cooperatives. The Cooperative Law of 2012 is, according to the Constitution Court, in contradiction with the 1945 Constitution, and to avoid the law vacuum, the Constitution court stated the temporary reenactment of Law Number 25 of 1992 about Cooperatives until the development of new cooperatives Law.

Muhtarom (2016) stated that the issuance of Law Number 1 of 2013 is a progress step for the presence of LKM and is expected to deal with the law uncertainty of LKM and to provide legality for the activity of raising the society's saving fund. In fact, however, the issuance of this law has implication to the double regulation for Cooperatives, because Cooperatives have been under the regulation of Law Number 25 of 1992 about Cooperatives and Law Number 1 of 2013 about Micro-Financial Institution. Considering the result of research (Sumantoro, 2001), the enactment of legislation compelling LKM to be governed with banking model and tight regulation and supervision will have implication to two contingencies: many paralyzed LKM including cooperatives and society's incomppliance with the legislation. The positive law manifested into law form but not consistent with the people's law will not likely be chosen by the society members as their behavior instruction (Soetandyo, 2008), so that those legislative will not run effectively in the society. The legal frame developed to be approached with plurality consciousness uses Triangular Concept of Legal Pluralism (Menski, 2006). The rigid government bureaucracy and the difficulties of realizing *Structure Follow Strategy* and of applying the best practice (Lukita, 2001) lead the government, as legislature, to formulating the indicator of resource (fund, facility, human, and etc) and process measurement only, rather than formulating the indicator of product (output) and consequence measurement (Robert.S, Kaplan, 2012).

- (b) Membership and Cooperatives Organization: The inadequate application of Good Corporate Governance (GCG) principle has been found in come studies conducted on the important effect of GCG principle application including transparency, accountability, responsibility, independency, and fairness; this principle should be obligatorily applied in any aspects of business including cooperatives to encourage the creation of efficient and transparent market (LGDA. Pradnyaswari, 2016), aiming to achieve the business sustainability (KNKG, 2006), to govern the management behavior, to detail, to explain the duty, authority and responsibility to the authorized ones (Siboro, 2007), to guarantee and maintain the stakeholders' trust (Fathi, 2013), to affect the probability (Bistrova, Lace, 2012), to affect both financial and non-financial performances of organization (Brown, Caylor, 2004), to measure the financial performance of business organization (Lestari, Muid, 2011), to determine the value and to affect the financial performance (Setyawan, 2013), to maximize the performance of organization (Barrett, 1997) and to build culture and to build consciousness among those related to cooperatives in order to pay attention to their responsibility for making their members prosperous (Farida and Herwiyanti, 2010). The management inconsistent with the enacted legislation the healthy cooperatives principle and the management independency without conflict of interest will improve the performance and will ensure that the company has objective attitude (Suci, 2013). Therefore,

the application of GCG principles in cooperatives will improve the financial performance of cooperatives.

Government policy that always spoils cooperatives and the image of cooperatives as the second-class economy (Roswita Maryam), the less modern and outdated one are two factors resulting in the difficult development of cooperatives in Indonesia, so that cooperatives result not from the society's consciousness, but from government's support and even compulsion. In addition, the fact showing low participation level by cooperatives members, less professional cooperatives management and society's less understanding on cooperatives, administrator and supervisor's less dedication to cooperatives' sustainability, inadequate human resource, unclear job description, elder administrator (Dina, 2016), and poor internal control system (AK.Palupi, 2011) is inversely proportional to the great development of cooperatives in developed countries suggesting that cooperatives is not in contradiction with capitalistic economy. In developing countries, cooperative cannot only compete with non-cooperatives large companies so far but also contribute to the state's economic advance. Cooperative plays an important of role in United State of America (and in Canada) with loan cooperatives as the people bank owned by members providing service to its members (Mulyo, 2004), Sunkist Cooperatives supplying raw material to Coca-Cola factory in California (Mutis, 2001), Nurinchukin Bank cooperatives serving as people bank because it operates by applying banking system as one of large bank in Japan (Rahardjo, 2002). Consumer cooperatives in Singapore, just like that in Japan and Canada, can be the strongest competitor for the foreign retail giant trying to enter into the state. Even in some countries, they attempt to direct their company to establish cooperative because the local people are expected to have big opportunity of utilizing the economic potency and asset existing in their local areas.

In capitalization problem, process and idea of raising capital leads to many fraud practices committed by cooperatives. Moral hazard of administrator as the shortcomings of cooperatives development lies on the administrator accountability vagueness. Cooperatives often utilize its function and authority for personal or group interest to raise property or to look for profit. Indifference in distributing fund can also be categorized as moral hazard action in channeling the fund resulting in the problem (Mustofa, 2007).

- (c) Cooperatives' Operation: High loan interest rate in cooperatives is not merely the cooperatives management's fault. There are other factors affecting it: firstly, the fund acquisition structure of third party. So far cooperatives face the stringent business competition to get member fund as the cooperative capital. In addition to being competitive with fellow cooperatives, cooperative should also be competitive with non-cooperative financial institution and sometimes should tantalize the prospect members in order to put their fund in the cooperatives. Secondly, psychological perception factor.

No Saving Guarantying Institution (LPS) for cooperative and no party assuming the risk when the saved fund is lost leads to the very poor law guarantee and law protection for the members or customers of cooperatives. Compare it with the banking, in which the customers' saving fund up to IDR 2 billions is guaranteed by LPS. This condition results in stigma that saving

money in cooperative is not safe. Even the fake cooperatives embezzling the members' fund makes the image of cooperatives worse in the public's eyes.

The cooperatives' operational management has not been efficient. It is inseparable from the low information technology use in the cooperatives operation. Many cooperatives services are found manually in the field. Overhead cost (HR) is high particularly for marketing personnel.

The high loan interest rate in cooperatives make interest rate in cooperatives is higher than that in banking. It is because of the incriminating double tax rule because cooperatives are imposed with final Income Tax (PPh) over income and body tax. Tax regulation is assessed as incriminating cooperatives making the saving interest much higher than that in bank. Final PPh is generally imposed on profit rather than sale volume, because sale volume obtained is often not proportional to the profit obtained. The imposition of final PPh on cooperatives business' income prevails after the issuance of Government Regulation (PP) Number 46 of 2013 about Income Tax over the Income from Business Received or Obtained by the Taxpayers with Certain Gross Circulation. Article 3 of this Regulation mentions that final PPh tariff of 1 percent is imposed when the business income reaches IDR 4.8 millions per year. Other tax imposed on cooperatives is body tax (PPh) of 25%. At individual tax, there is also Business Profit Residue (SHU) as much as 10% of gross SHU corresponding to the Law Number 36 of 2008 confirmed by the Financial Minister's Regulation (PMK) Number 111 of 2010.

Many factors result in cooperatives dysfunction: incompatibility of cooperatives' objective, function and role to the dynamics and development of Indonesian cooperatives. Cooperatives as an economic, social, and cultural entity is politicized and intervened continuously making it not developing. Therefore it is reasonable that it is difficult to find an ideal cooperative in Indonesia. Most Indonesian cooperatives also forget their self-identity and do not implement the principles of cooperatives correctly (Faedlulloh, 2015). As the save-loan institution other than bank, Law gives some facilitation to the cooperatives leading to justification and legalization of usurer economic character. Many investors establish cooperatives to distribute fund freely regardless the regulation and standard of Bank. It is unsurprising that with very easy precondition, many KSPs change into financial institution, the fund of which does not derive from the members' due or capital cultivation result, but from the investors intentionally investing their capital to circulate their money with high margin. Many deviating practices are committed by cooperatives such as fraud, monopoly (NA.Marjianto, 2014), loan embezzlement (Kristiane, 2014), deviation of cooperatives principle (Sularso, 2015), fictitious member application during funding application to the bank, capital use for consumptive need of administrators so that the cooperatives cannot perform their obligation to repay their debt (Akbar, 2013), fictitious loan, mark-up of debt application nominal size (Lidya, 2017), or we can find a cooperative successfully gain the large profit but their members' wellbeing remains to be ignored (Mutasowifin, 2002).

- (d) Supervision, Law Protection, and Problem Solving: There is no clear regulation included into the cooperatives law concerning the sanction and solution to the problems of non-performing or bankrupted cooperatives. Cooperatives Law does not mention specifically the law protection for the members' or customers' fund, while the customer protection form only exists in articles 7 and 8 of Government Regulation Number 33 of 1998 about Participation Capital in

Cooperatives. The preventive action (Salim, 2009) is governed in only the provision of Articles 1243, 1267, 1237 clause 2 of Civil Code and Article 181 clause (1) of HIR (Herzien Inlandsch Reglement), in the case of agreement non-performance by one party, another party will file lawsuit. The loss suffered from by the customers due to the agreed policy in the member meeting will be assumed by all members or owners of cooperatives or when the loss is due to the administrator's negligence, it will be assumed by the administrators.

Cooperatives' supervision is limited to financial report based on the Law Number 25 of 1992 about irrelevant Cooperatives. The implementation of Provisions for Save-Loan Cooperatives or Save-Loan Business Supervision is still relatively low so far. The report on save-loan activity by cooperatives given to the office (local government) approving the cooperatives establishment document, constituting the cooperatives' supervision obligation, is also still relatively low. The low realization of save-loan cooperative supervision is in line with the low support given to build and to supervise less proportional to the number of Save-loan Cooperatives/business in the term of health assessing and supervising personnel, limited building for personnel competencies at regency/city and provincial levels and limited budget and poor standard building and supervision management at regency/city and provincial levels. The supervisor's duty and authority is governed in Article 39 of Law Number 25 of 1992 about Cooperatives. Supervisor has strategic function in controlling the policy run by administrators or managers over the cooperatives' financial problem. However, the presence of supervisor organ in cooperatives had not function optimally; even the structure/chart serves only as formal complement, thereby resulting in imbalance of performance in each organ of cooperatives. The poor control over administrators' performance will gives the opportunity of deviation, particularly in the term of customers' fund management.

2. Cooperatives Regulation Reinforcement Model

Sri-Edi Swasono (2002) stated that in building the people's economy partiality is needed, the attitude exalting the people sovereignty.

- (a) Regulation reinforcement is required, particularly the revision of Cooperatives Law to govern standard human resource of members, administrators, and supervisors. The clear limitation should exist concerning basic duty, obligation and right of members, administrators, and supervisors.
- (b) The government should limit the authority in regulation aspect and capacity increase rather than direct intervention with the reinforcement but through market institution.
- (c) To promote the cooperatives, the regulation should lean to the center while reinforcement should lean to autonomous area for the business integration corresponding to the economic pattern and territorial structure owned; the primary duty of central government is to provide regulation set in cooperative institution and to supervise the approval of Cooperatives Enterprise.
- (d) Continuing the idea of developing Cooperatives Law governing the supervision of cooperatives ad financial institution. Supervision system pertains to supervising strategy, regulation reinforcement, and supervision effectiveness improvement in the attempt of building the

structure of supervised institution into the healthier and stronger one. Supervising strategy to support the realization of healthy, strong, productive or independent institution includes: 1) regulation reinforcement; 2) supporting infrastructure reinforcement; 3) supervision effectiveness improvement and customer protection effectiveness. Recalling that so far cooperatives are not under Financial Service Authority (OJK)'s supervision such as other financial institutions, to avoid the fictitious cooperative case embezzling the members' fund, the reformation of legality and supervision over save-loan cooperatives is conducted in collaboration with OJK concerning the supervision over the primary cooperatives existing in local area. The collaboration between PPATK and OJK is expected to make the cooperatives have higher quality rather than the financial institution used for moral hazard practice. That practice can occur in KSP recalling its role as non-bank financial institution providing save-loan service to the public.

- (e) The synchronization of legislating process is conducted to avoid the overlapping regulation. To deal with investment sector, the Cooperatives, Small-and Medium-scale Enterprise Ministry should cooperate with Trading Ministry, Communication and Information Ministry, General Attorney, Police, and BPKM to develop the regulation. PPATK (Financial Transaction Reporting and Analysis Center) should synchronize the legislation and cooperative with Financial Service Authority (OJK) in supervising cooperation. The Deputy of Supervision should establish cooperation with Financial Service Authority (OJK) and (Financial Transaction Reporting and Analysis Center) to prevent money laundry by cooperatives. In the presence of supervision, the society's trust in cooperatives will be higher and it is consistent with the objective of cooperatives reform conducted by government.

Out of the five institutions becoming the reference, there is a supervision institution established according to the Law: OJK (Law Number 21/2011) and BI (Law Number 23/1999), with Presidential Decree, KPPU (Keppres Number 75/1999) and Government Regulation, BNSP (PP Number 23/2004). The assignment of supervision institution's leader is the Governor of BI (Bank of Indonesia) hired and terminated by President on DPR's approval, Commissioner Council of OJK is selected by DPR on President's proposal by establishing selection committee to determine the candidate commissioner members, in KPPU the Commission members are hired and terminated by President on DPR's proposal, in BNSP they are hired and terminated by President on the Manpower Minister's proposal, while BPKP leader is the First Echelon Officials in Financial Ministry Environment assigned by President on the Financial Minister's proposal. Meanwhile, BI is responsible for reporting the implementation of its duty and authority to DPR, OJK to DPR as its responsibility to the society, KPPU to the president and DPR, BNSP to President, and BPKP to Financial Minister.

- (f) There should be firm sanction and action such as closing the mischievous cooperatives.

CONCLUSION AND RECOMMENDATION

The low competitiveness of cooperatives in national economy because of globalization stream is due to the cooperatives regulation (Law No.1992) no longer consistent with the Indonesian cooperatives and economy development in global business penetration. Low good corporate governance, overlapping regulation and many gaps resulting in potential moral hazard in its operation and no supervision by

financial auditing board lead to many deviation from the basic principles of cooperatives, making the image of cooperatives worse.

The regulation of cooperatives should improved and the Law no.1992 should be revised to create a strong, obvious, clean cooperatives legislation encouraging the cooperatives' competitiveness to realize member wellbeing particularly, society wellbeing generally, and State' economic objective. Supervision by the Financial Service Authority is also needed to make the cooperatives the healthy financial institution.

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